

# A World in Transition

The world is coming to terms with several factors that are significantly altering the outlook for the global economy, and the world we live in. How the world adapts to the challenges could have significant implications for financial markets in 2020 and beyond. The world is in transition and doesn't know yet where it's going to arrive.

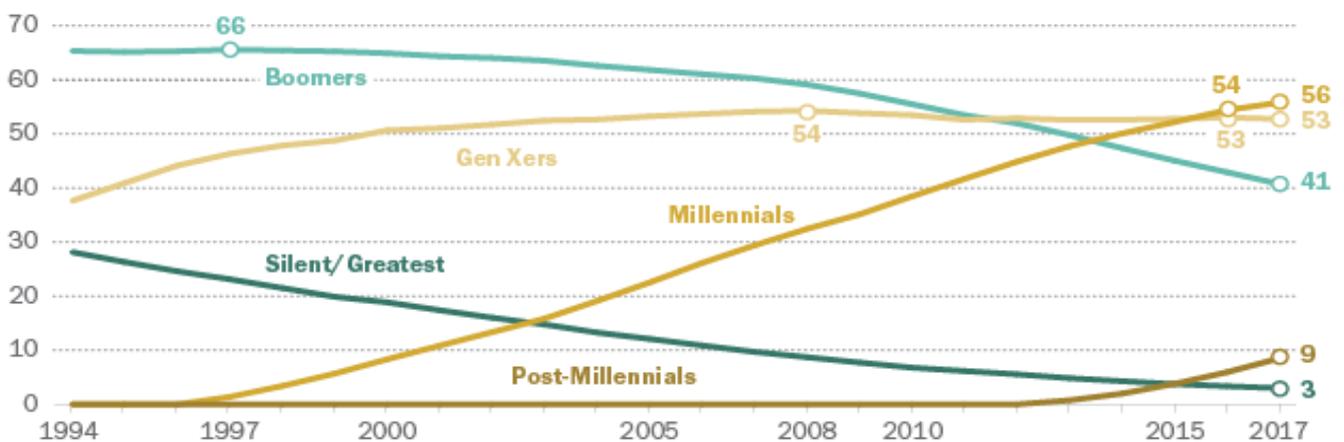


## Baby Boomers Hand Over the Baton to the Millennials

Baby boomers are rapidly being replaced by Gen Xers (1965-1980) and Millennials (1981-1996) in the general population and workforce. The attitudes, aspirations and lifestyle of Baby boomers born in the aftermath of the Second World War and through to 1964 will no longer hold sway as other generations take hold. The marked change of very recent years is that Millennials have now moved in many cases to become the largest cohort in the labour force. Millennials are more likely to live with parents, marry later, adopt technology, but also to fear that technology will lead to them losing their job.

**Chart 1: Millennials became the largest generation in the labor force in 2016**

*U.S. labor force, in millions*



Note: Labor force includes those ages 16 and older who are working or looking for work. Annual averages shown. Source: Pew Research Center analysis of monthly 1994-2017 Current Population Survey (IPUMS).

PEW RESEARCH CENTER

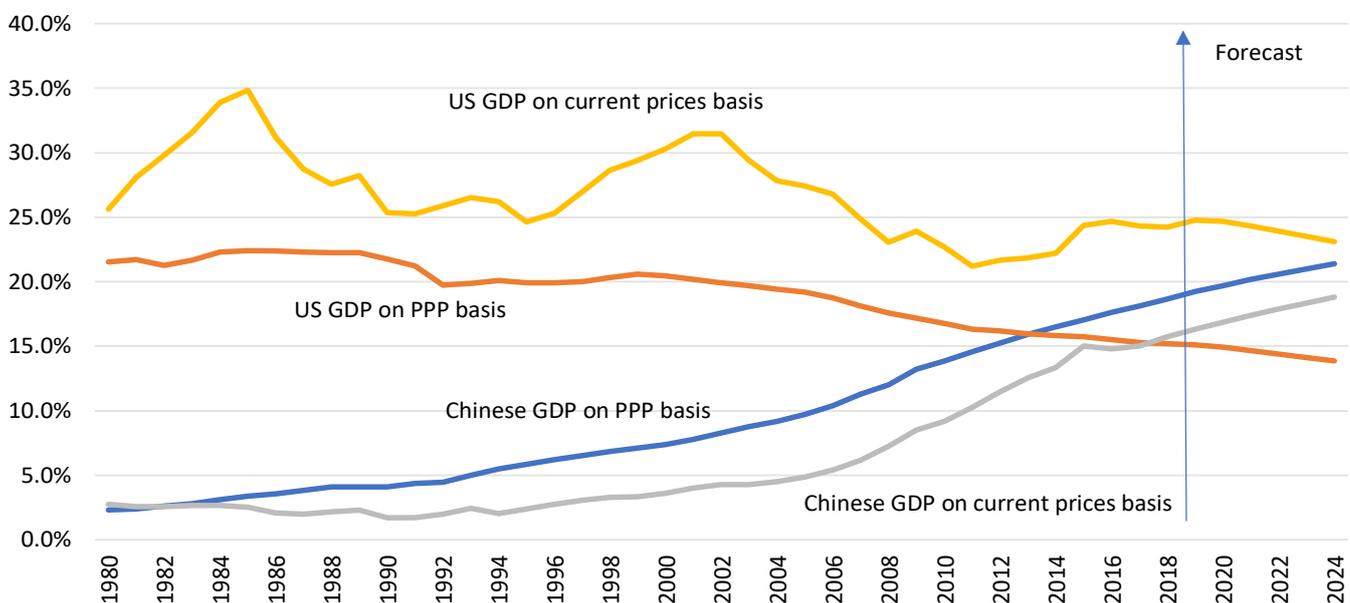
# Pension and Healthcare Costs Become a Real and Present Problem

With baby boomers moving into retirement, there is an increasing focus on the contingent liabilities of pension funds and government social benefits. There are already numerous examples of pension funds unable to meet their present-day commitments. However, the future looks even more worrying. In the US, the 2019 OASDI Trustees Report commented that the Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) trust funds alone have an unfunded obligation of \$43.2 trillion. Another study showed that the Social security's combined trust fund would be depleted in 2035. Policymakers will not be able to continually bury their heads in the ground. Already with recent protests in France, the disruption to political life could be considerable as governments try to address their deficits and the private sector owns up to hopelessly under-funded pension schemes.

## The Waning Dominance of the United States

The United States feels threatened. Trade wars have some foundation in unfair practices, but they also reflect an attempt by countries to slow the progress and reach of competing nations. The Chinese economy on a purchasing power basis is already larger than the United States and could surpass the United States on a current prices basis later in the decade. President Trump has taken up the challenge in his way. The trade war with China contrasts with his efforts to withdraw troops from several theatres of conflict. The dollar has been weaponized by the US government threatening to take dollars away from countries that don't comply with their perspective. Such moves only increase efforts to propagate new means of global payments, including the use of cryptocurrencies.

**Chart 2: China's economy surpasses the US on some measures**



# Environmental, Social and Governance (ESG) are Front and Centre

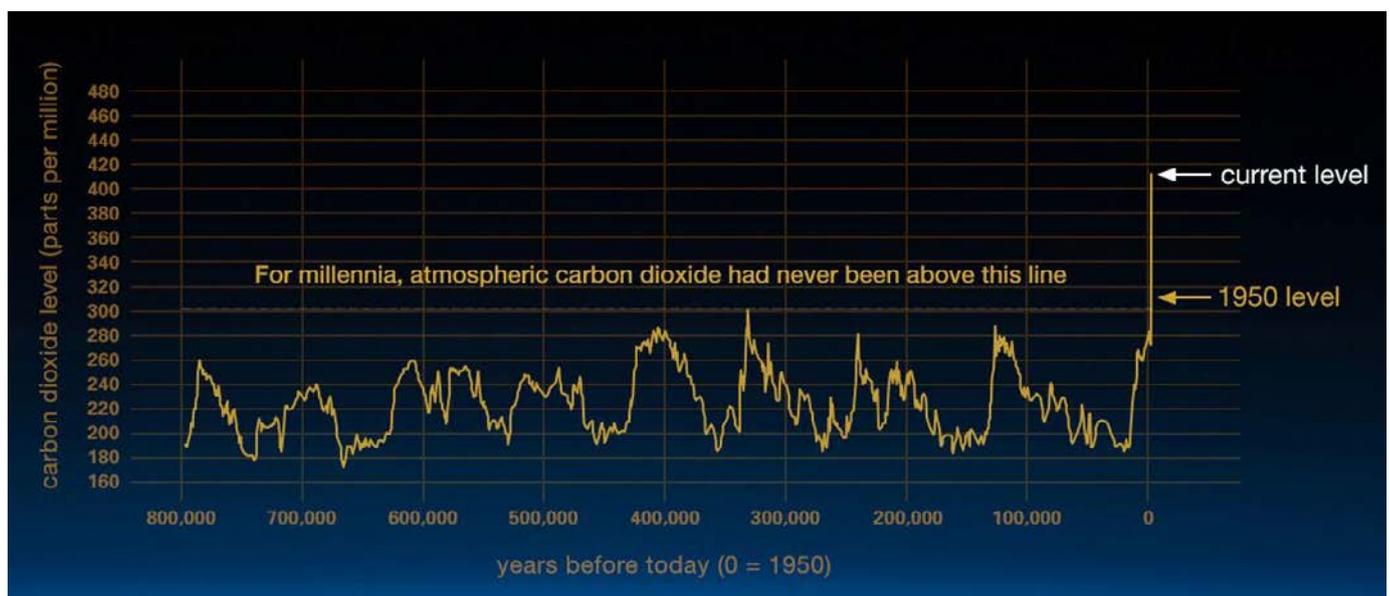
In the past year, there has been a dramatic increase in awareness of ESG matters. We cannot overstate the degree to which the popular press and financial markets have taken ESG to heart. Every asset manager now has to have some strategy around ESG factors. Investment choices are being made with at least a half an eye on ESG matters. A recent survey by Aviva found that 90% of investors polled considered ESG important in investment decision-making.

Companies that do not meet baseline ESG ratings will find themselves increasingly struggling to get access to funding at a reasonable cost. Already there appears to be discernible deterioration in the valuation of 'dirty' industry companies.

Meanwhile, climate change issues are never far from the headlines. The issues have always been there. The difference in 2019 was that the topics were reaching the top of political agendas. While green parties still struggle to make a meaningful impact in elections, the green credentials of leading parties are increasingly being challenged.



## Chart 3: Atmospheric carbon dioxide levels off the charts



Source: [climate.nasa.gov](https://climate.nasa.gov)

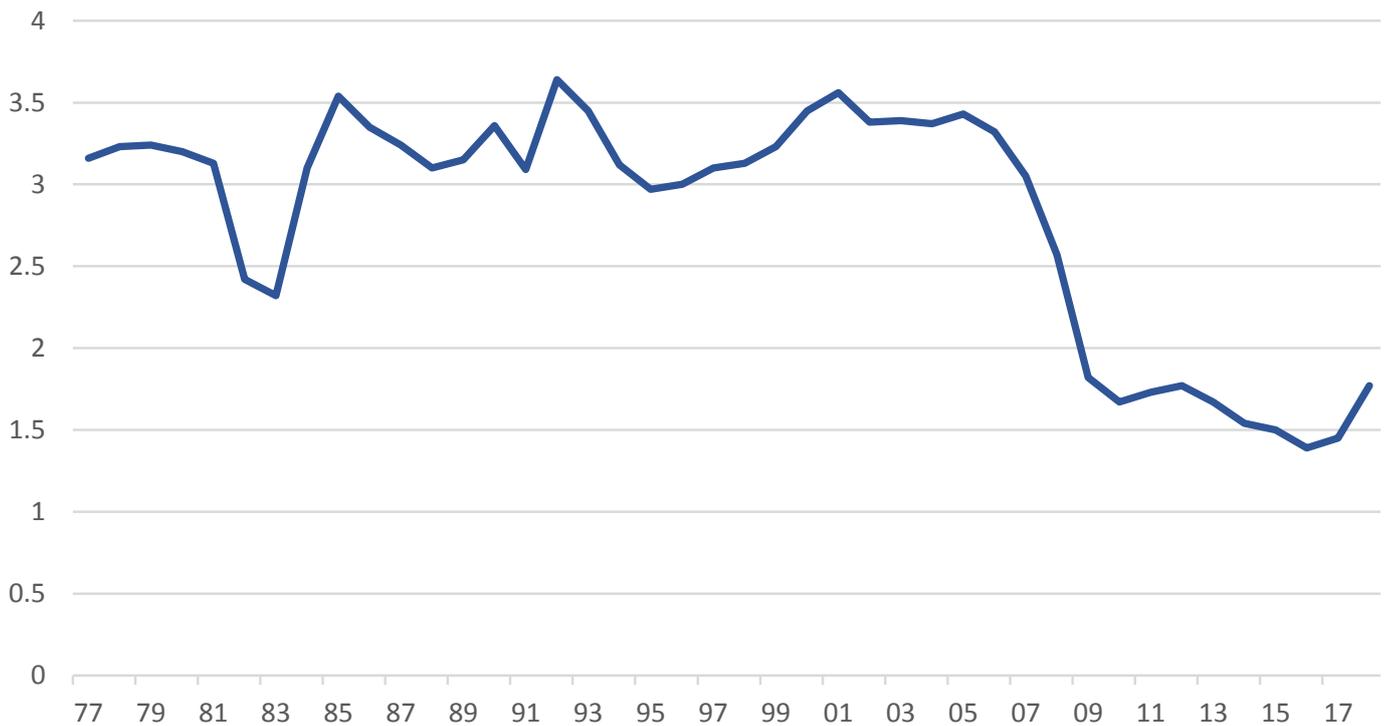


The ESG factors are morphing into new initiatives that catch the eye. The decision by a large body of leading US CEOs to change, this year, their focus to stakeholders rather than shareholders marks a remarkable shift from the past. Capitalism is considered to have started in around the 16th/ 17th century. At its extreme, financial capitalism dominated through to the world financial crisis. Could it be that we are now seeing a form of social-capitalism developing where labour has a meaningful input to corporate decision-making and gain a fairer payout from gross profits?

# The Reality of Slower Global Growth

Real GDP growth has been slowing both in the developed and emerging world. Chart 4 shows that even in the United States, which has had the benefit of President Trump's tax cuts, the trend in long term growth is way below that enjoyed between 1980 and 2007.

**Chart 4: Trend in US 10-year average growth has materially fallen**



Source: Bloomberg

Unfortunately, the trends in growth in the emerging world are also downward. Weak Chinese growth due in part to the legacy of a one-child policy is bringing Asian growth down materially for the near 9% growth witnessed in the past. In Latin America growth is erratic but averaging close to half the rates achieved in the past. In the Middle East, the constraints on oil production to support oil prices has left growth a fraction of past levels.



**Table 1: Historic and Forecast Real GDP growth**

	2001-10	2019 (E)	2020 (E)	2020 - 24(E)
Emerging and Developing Asia	8.5	5.9	6.0	6.0
Emerging and Developing Europe	4.4	1.8	2.5	2.5
Latin America and Caribbean	3.2	0.2	1.8	2.7
Middle East and Central Asia	5.3	0.9	2.9	3.3
Sub-Saharan	5.9	3.2	3.6	4.2

Source: IMF

## The Holing Out of the Centre of Global Politics

There is an active debate amongst political analysts over whether global politics is moving to left or right, but one thing that is evident that the centre is fast disappearing. The politics of consensus seems to be increasingly on the wane. The US has Democrats and Republicans in entrenched positions either side of an argument. The UK election saw an increasingly entrenched electorate at opposite ends of the political divide. Many democracies fail to deliver outcomes for their economies or their people that offer fairness or vision for the future.

The seeming lack of leaders and political parties that can garner the support of majority of the population risks leaving governments trying to manage their countries with difficult coalitions or wafer-thin majorities. The world faces significant challenges that need empowered leadership with vision. Few countries can easily say that they have such a political set up at this juncture.



## Disclaimer

This update has been produced using both internal and external data with the aim to provide information. However, this is not intended to form professional advice nor should it be relied upon as such and before taking any particular action, specific and personal advice should be obtained.

While The Fry Group uses reasonable efforts to obtain information from sources which it believes to be reliable, we make no representation that the information or opinions contained in this report are accurate, reliable or complete. The information and opinions contained in this update are subject to change without notice.

The Fry Group of companies comprises of Wilfred T Fry Ltd – Taxation Consultants, Wilfred T Fry (Executor and Trustee) Ltd, The Fry Group (H.K.) Ltd, The Fry Group (Singapore) Pte Ltd, The Fry Group (Belgium) SA, Wilfred T Fry (Personal Financial Planning) Ltd – Dubai Branch, and Wilfred T Fry (Personal Financial Planning) Ltd ('PFP'). The last company is authorised and regulated in the UK by the Financial Conduct Authority (FCA number 114402) and is also passported under EU regulations. The Fry Group (H.K.) Ltd is licensed to conduct investment advisory and asset management in Hong Kong by the Securities & Futures Commission (SFC; CE Number: ATY965) and is licensed as an insurance broker by the Insurance Authority (IA; Licence Number: FB1207). The Fry Group (Singapore) Pte Ltd is authorised to act as a financial adviser by the Monetary Authority of Singapore - licence number FA100057. The Fry Group (Belgium) SA is regulated in Belgium by the FSMA (Reg. No. 23345 A) and is also passported under IMD EU regulations. Wilfred T Fry (Personal Financial Planning) Ltd – Dubai Branch is regulated by the Dubai Financial Services Authority (licence number F005071).



**The Fry Group**  
since 1898